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Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1945

UNITED CIGAR-WHELAN STORES
CORPORATION

UNITED CIGAR-WHELAN STORES CORPORATION

EXECUTIVE OFFICES • 215 Fourth Avenue, New York 3, N. Y.

Board of Directors

JOSEPH I. LUBIN, Chairman of the Board

DAVID G. BAIRD
HUGH B. BAKER
WALTER G. BAUMHOGGER
HENRY C. BRUNIE
PAUL DUDLEY CHILDS
FRANK M. HEAD
HOULDER HUDGINS
HARRY RUBENOFF
B. A. TOMPKINS
DALLAS S. TOWNSEND

JOHN WHITNEY

Officers

WALTER G. BAUMHOGGER, President

JOHN D. BRUCE . . . . . *Vice President*
HARRY M. CHICHESTER . . . . . *Vice President*
EDWARD E. CODY . . . . . *Vice President and Treasurer*
EMILE E. GRIGNARD . . . . . *Vice President*
FRANK M. HEAD . . . . . *Vice President*
HARRY RUBENOFF . . . . . *Vice President and General Counsel*
A. HERBERT SMITH . . . . . *Vice President*
HAROLD W. JACOBSEN . . . . . *Secretary*
PAUL OLSEN . . . . . *Comptroller, Assistant Secretary and Assistant Treasurer*

Transfer Agents

Prior Preferred and Common Stock
EMPIRE TRUST COMPANY, NEW YORK, N. Y.

Prior Preferred and Common Stock
REGISTRAR AND TRANSFER COMPANY, JERSEY CITY, N. J.

Common Stock
THE TRUSTS AND GUARANTEE COMPANY, LIMITED, TORONTO, CANADA

Registrars

Prior Preferred and Common Stock
THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Common Stock
COMMERCIAL TRUST COMPANY OF NEW JERSEY, JERSEY CITY, N. J.

Common Stock
THE TRUSTS AND GUARANTEE COMPANY, LIMITED, TORONTO, CANADA

UNITED CIGAR-WHELAN STORES CORPORATION

Annual Report

March 22, 1946.

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

With this annual report, I am sending you our balance sheet as of December 31, 1945 and consolidated statements of profit and loss and surplus for the year 1945. Our financial statements have been examined by Messrs. Price, Waterhouse & Co., independent public accountants, and their opinion is included herein.

Comparisons of sales and profits transferred to earned surplus for the years 1944 and 1945 are shown below:

	Sales volume	*Profit transferred to earned surplus*
1944	$65,444,422	$1,501,963
1945	67,017,545	1,879,121

The profit transferred to earned surplus for 1944 is after deduction of a $400,000 provision for contingencies, and the profit for 1945 includes a $275,000 transfer from the reserve for contingencies, as explained in the attached notes to financial statements.

Working capital at the end of 1945 amounted to $10,371,820. The ratio of current assets to current liabilities improved from 3.07 to 1 at December 31, 1944 to 3.24 to 1 at the end of 1945.

The stockholders of the corporation, at a meeting held May 15, 1945, approved an amendment to the corporation's charter, which changed the authorized Common Stock of the corporation from 6,000,000 shares of the par value of 10¢ a share to 3,000,000 shares of the par value of 30¢ a share, and converted each three shares of the Common Stock of 10¢ par value into one share of the present Common Stock of 30¢ par value, so that the authorized shares of the corporation were changed to 3,327,291 shares, consisting of the following number and classes of stock:

Prior Preferred Stock of the par value of $20.00 each	318,235 shares
Cumulative Five Dollar Preferred Stock, without par value	9,056 shares
Common Stock of the par value of 30¢ each	3,000,000 shares

At a meeting of the Board on November 9, 1945, a resolution was adopted calling for the redemption, on January 4, 1946, of all of the then issued and outstanding shares of the Cumulative Five Dollar Preferred Stock of the corporation at the redemption price of $100.00 a share, plus accrued dividends thereon to the date of redemption, amounting to 90¢ a share. The holders of the Cumulative Five Dollar Preferred Stock were given the option to exchange their stock on the basis of four shares

of Prior Preferred Stock for each share of Cumulative Five Dollar Preferred Stock held by them. 3,788 shares of Cumulative Five Dollar Preferred Stock were exchanged for 15,152 shares of Prior Preferred Stock, and the remainder of the outstanding shares of Cumulative Five Dollar Preferred Stock was redeemed for cash. The effect upon the capital and surplus of the corporation in connection with such redemption and conversion of the Cumulative Five Dollar Preferred Stock is reflected in the financial statements included herein.

At December 31, 1945, there were outstanding 288,122 shares of Prior Preferred, and 1,903,164 shares of Common Stock.

The Board of Directors, at a meeting held January 14, 1946, approved a plan for the sale of a limited number of shares of the corporation's authorized but unissued Common Stock on an installment basis to twenty-one officers and key executives. The plan, which is referred to in Note F to the consolidated financial statements, will be submitted to the common stockholders of the corporation for their approval at the next annual meeting to be held on May 15, 1946, and details of the plan, together with a copy of the contract that has been entered into by these officers and executives, will be forwarded to the common stockholders with the notice of the annual meeting and proxy statement. In the opinion of your Board of Directors, ownership of the corporation's stock by its principal officers and key executives tends to identify more closely their interest with that of the stockholders; gives actual and direct interest in proportion to their stock holdings in the operation of the company, and is beneficial and desirable both from the standpoint of the corporation and of its common stockholders.

A contract has been entered into by the corporation to acquire a chain of nine drug and five liquor stores, known as the Dade Pharmacies and Dade Cut-Rate Liquor Stores, as well as leases for three drug stores not yet opened. All of these stores are located in the Miami, Fla., area. Further details will be publicized at a later date after the transaction has been consummated and the stores have actually been taken over for operation.

The 1946 program of Management with respect to the opening of new stores, and expansion and modernization of existing stores is well under way. It is expected that, by the end of this year, the additional volume of business as a result of this program will be substantial.

With the termination of the war, a great many of the corporation's employees are returning, and it is hoped thereby that we can materially strengthen our organization.

The Management wishes to express its deep appreciation to all of its employees for the fine work they did during the difficult war years, and to express its heartfelt sympathy to the families and friends of the twenty-one former employees who made the supreme sacrifice while serving in the armed forces of our country.

WALTER G. BAUMHOGGER,
President.

ANNUAL MEETING

Pursuant to the By-Laws of the Corporation, the Annual Meeting of Stockholders will be held on May 15, 1946. It is contemplated that the notice of such Annual Meeting, together with the proxy statement and form of proxy, will be sent to stockholders on or before April 10, 1946.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1945 AND 1944

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

ASSETS

	December 31, 1945	December 31, 1944
CURRENT ASSETS:		
Cash	$ 3,342,042	$ 5,182,545
United States Government securities	102,300	132,300
Accounts receivable, less reserve	1,124,577	809,970
Inventories of merchandise and supplies, at cost or market whichever is lower	9,948,338	8,781,560
Merchandise inventories with agents	491,900	512,025
Total current assets	15,009,157	15,418,400
MISCELLANEOUS INVESTMENTS, at or below cost	62,482	90,689
FIXED ASSETS, at cost or less:		
Real estate	13,750	750,225
Furniture, fixtures and equipment (includes approximately $1,500,000 on which the reserve for depreciation is equal to the asset)	4,063,642	3,954,319
	4,077,392	4,704,544
Less—Reserves for depreciation	2,533,071	2,558,943
	1,544,321	2,145,601
Improvements to leaseholds, less amortization	1,060,706	900,830
Construction in progress	257,928	72,921
Total fixed assets	2,862,955	3,119,352
DEFERRED CHARGES:		
Prepaid rents, insurance, taxes, etc.	296,078	297,882
Total Assets	$18,230,672	$18,926,323

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1945 AND 1944

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

LIABILITIES AND CAPITAL

	December 31, 1945	December 31, 1944
CURRENT LIABILITIES:		
Accounts payable	$ 2,568,705	$ 2,963,921
Dividends payable on preferred stock	89,318	98,374
Taxes accrued and withheld	632,082	820,228
Accrued compensation and other current and accrued liabilities	1,088,954	937,294
Provision for federal taxes on income (Note B)	1,048,278	1,247,082
Less—United States treasury savings notes, Series C	(950,000)	(1,200,000)
Note payable to bank, due within one year	160,000	160,000
Total current liabilities	4,637,337	5,026,899
LONG-TERM DEBT:		
2½% notes payable to bank due after one year (Note C)	3,045,000	3,340,000
Real estate mortgage	—	455,000
	3,045,000	3,795,000
RESERVE FOR WARTIME AND POSTWAR CONTINGENCIES	525,000	800,000
CAPITAL STOCK AND SURPLUS (Notes D, E and F):		
Prior Preferred Stock:		
Authorized—318,235 shares, par value $20 a share, $1.25 dividend cumulative (entitled in liquidation to and redeemable at $25 a share and accumulated dividends). Outstanding — 288,122 shares (1945); 191,080 shares (1944)	5,762,440	3,821,600
Cumulative Five Dollar Preferred Stock	—	1,907,250
Common Stock:		
Authorized—3,000,000 shares, par value 30¢ a share. Outstanding—1,903,164 shares excluding 4,144 shares in treasury	570,949	570,965
Capital surplus	172,364	317,413
Earned surplus since July 1, 1939	3,517,582	2,687,196
Total Capital Stock and Surplus	10,023,335	9,304,424
Total Liabilities and Capital	$18,230,672	$18,926,323

The accompanying notes to consolidated financial statements should be read in conjunction with the above balance sheets.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEARS 1945 AND 1944

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

		1945	*1944*
Net sales		$67,017,545	$65,444,422
Cost of sales		48,092,964	46,880,290
		18,924,581	18,564,132
Display advertising, sundry commissions, etc.		1,568,712	1,686,645
Rentals and other income		450,020	522,203
Profit from sale of investment in subsidiary company		86,089	—
		21,029,402	20,772,980
Salaries, wages and other compensation		9,936,997	9,435,701
Rent expense		3,548,472	3,485,992
Taxes, other than taxes on income		725,659	847,195
Depreciation and amortization		565,071	496,882
Other operating and administrative expenses		3,486,640	3,247,723
Interest on long-term debt		90,649	120,361
Other charges		71,793	62,163
		18,425,281	17,696,017
		2,604,121	3,076,963
Provision for estimated taxes on income (Note B):			
Federal taxes on income (includes excess profits tax of subsidiary companies of $25,000 in 1945 and $90,000 in 1944)		980,000	1,150,000
State income taxes		20,000	25,000
		1,000,000	1,175,000
		1,604,121	1,901,963
Provision for wartime and postwar contingencies			400,000
Transfer from reserve for wartime and postwar contingencies to offset the following items included in costs and expenses above (Note A):			
Losses on disposal of wartime merchandise	$175,000		
Portion of assessment for additional New York City taxes of prior years	100,000	275,000	
Profit transferred to earned surplus (see Note A)		$ 1,879,121	$ 1,501,963

The 1944 figures have been reclassified for purposes of comparison.

The accompanying notes to consolidated financial statements should be read in conjunction with the above statement of profit and loss.

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEARS 1945 AND 1944

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

	1945	1944
EARNED SURPLUS SINCE JULY 1, 1939		
Balance at beginning of year	$2,687,196	$2,570,099
Add: Profit transferred from Consolidated Statement of Profit and Loss	1,879,121	1,501,963
	4,566,317	4,072,062
Deduct:		
Charges arising from issuing 81,890 shares (1945) and 191,080 shares (1944) of Prior Preferred Stock in exchange for 16,378 shares (1945) and 38,216 shares (1944) of Cumulative Five Dollar Preferred Stock pursuant to amendment of the corporation's charter approved by the stockholders on May 23, 1944:		
Excess of par value of shares issued over stated value of shares received for exchange	409,450	955,400
Cash payments of $2 a share on shares received for exchange	32,756	76,432
Dividends on Prior Preferred Stock, $1.24 a share (94¢ a share in 1944)	343,180	173,181
Dividends on Cumulative Five Dollar Preferred Stock, $29.65 a share ($5 a share in 1944)	263,349	179,715
Loss on corporation's bonds retired	—	138
	1,048,735	1,384,866
Balance at end of year (Note E)	$3,517,582	$2,687,196
CAPITAL SURPLUS		
Balance at beginning of year	$ 317,413	$ 317,413
Add: Adjustment arising from expiration of redemption privileges of certain scrip certificates, etc., which were issuable under the 1937 Plan of Reorganization	5,466	
	322,879	
Deduct:		
Excess of par value of 15,152 shares of Prior Preferred Stock issued over the stated value of 3,788 shares of Cumulative Five Dollar Preferred Stock received for exchange (Note D)	18,940	
Excess of redemption value of 5,263 shares of Cumulative Five Dollar Preferred Stock called for redemption on January 4, 1946 over stated value thereof (Note D)	131,575	
	150,515	
Balance at end of year	$ 172,364	$ 317,413

The accompanying notes to consolidated financial statements should be read in conjunction with the above statement of surplus.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNITED CIGAR-WHELAN STORES CORPORATION AND SUBSIDIARY COMPANIES

NOTE A:

Cost of sales includes losses on wartime merchandise estimated by management to amount to approximately $175,000 and taxes other than income taxes include a charge of $100,000 representing the approximate difference between a tax settlement payment in 1945 for additional New York City taxes for the years 1938 to 1944 inclusive and the amount provided therefor by charges to operations in prior years. By authority of the Board of Directors, the foregoing items have been offset in the consolidated statement of profit and loss by transfer of $275,000 from the reserve for wartime and postwar contingencies provided in prior years. Such transfer from reserve does not represent taxable income nor were the provisions creating such reserve in prior years deductible for tax purposes. However, the losses of $175,000 on wartime merchandise and the total tax settlement payment of approximately $225,000 have been included as deductions in computing estimated taxable net income for 1945 thereby reducing the provision for federal taxes on income and correspondingly increasing the consolidated net profit by more than $275,000. The consolidated net profit also benefited by a reduction in federal income taxes arising from an expense written off the books in prior years but deductible for tax purposes in 1945.

The provision for federal taxes on income would have been approximately $450,000 greater in 1945 and $360,000 greater in 1944, and the profit transferred to earned surplus correspondingly reduced, had it not been for the items referred to in the preceding paragraph and an unused excess profits credit carry-over to 1944 from a prior year.

NOTE B:

The amount of $1,048,278 shown on the consolidated balance sheet at December 31, 1945 as provision for federal taxes on income is subject to adjustment upon examination by the Treasury Department of the companies' income and excess profits tax returns for 1944 and 1945; the companies' tax returns for 1943 and prior years have been examined and the additional taxes determined by the Treasury Department have been paid. The computations of the provisions for federal taxes on income for 1944 and 1945 are based on estimated taxable net income and generally follow the determinations used by the Treasury Department in computing the tax liabilities of the companies for prior years.

NOTE C:

The 2½% notes payable to bank, dated December 7, 1944, are due as follows: $160,000 each year 1947-48, $250,000 each year 1949-53 and $260,000 in 1954. The remaining $1,215,000 is due in 1954 but is required to be amortized by payments at a cumulative annual rate of $135,000, provided, however, that the required amortization payment in any year shall not exceed 15% of consolidated net earnings or $250,000, whichever is the lesser.

NOTE D:

Pursuant to an amendment of the corporation's charter approved by the stockholders on May 15, 1945, the number of authorized shares of common stock was changed from 6,000,000 shares of the par value of 10¢ each to 3,000,000 shares of the par value of 30¢ each. The number of outstanding shares of common stock was reduced in the ratio of 3 to 1 and the par value increased from 10¢ to 30¢ a share.

By action of the Board of Directors the Cumulative Five Dollar Preferred Stock was called for redemption on January 4, 1946 at $100 a share and accrued dividends thereon to the date of redemption; stockholders were given the privilege of redeeming their shares for cash on and after December 21, 1945. In addition, the Board of Directors granted an option to the holders of the Cumulative Five Dollar Preferred Stock to exchange their shares, on or before December 29, 1945, for Prior Preferred Stock, at the rate of four shares of Prior Preferred Stock for each share of Cumulative Five Dollar Preferred Stock surrendered. Holders of 3,788 shares of Cumulative Five Dollar Preferred Stock exercised such option and received 15,152 shares of Prior Preferred Stock, and, at December 31, 1945, cash had been deposited with redemption agents to cover the remaining shares of Cumulative Five Dollar Preferred Stock.

NOTE E:

The difference between the involuntary liquidating value of the Prior Preferred Stock outstanding at December 31, 1945 and the par value of such stock amounted to $1,440,610. In the opinion of counsel for the corporation the right to the difference between the par value of the Prior Preferred Stock and such liquidation preference is not a restriction upon the distribution of surplus as dividends.

The corporation's Loan Agreement covering the 2½% notes payable to bank provides, among other restrictions and limitations, that without prior written consent of the bank, the corporation will not declare or pay dividends or purchase any outstanding capital stock of the corporation except that the corporation may declare dividends payable in its common stock or pay dividends on and purchase any class of its capital stock provided that the aggregate amount of dividends paid and disbursements for such purchases is not in excess of $615,000 plus 60% of the consolidated net earnings of the corporation and its subsidiaries accruing subsequent to January 1, 1944. It is estimated that, due to these restrictions, approximately $1,833,000 of the consolidated earned surplus of $3,517,582 at December 31, 1945 may not be used in the payment of dividends (other than dividends payable in its common stock) or in the purchase of any outstanding capital stock of the corporation.

NOTE F:

Subject to approval by stockholders on May 15, 1946 of the plan for the sale of authorized but unissued Common Stock of the corporation to officers and certain key executives (which plan is referred to in the President's letter forming part of this annual report), there are reserved for issuance under said plan 87,500 shares of the authorized Common Stock of the corporation. Such shares have been subscribed at $10.75 a share, at which price the shares sold on the New York Stock Exchange on December 21, 1945 on which date a Committee of Directors approved the plan for submission to the Board of Directors, resulting in an aggregate amount of $940,625, to be paid by the subscribers in instalments from 1946 to 1950.

There will also be reserved for possible issuance a number of shares of the corporation's authorized but unissued Common Stock pursuant to a contract signed February 1, 1946 by the corporation for the acquisition of a chain of drug and liquor stores in the State of Florida. Under the contract, the corporation will purchase on or before May 15, 1946 inventories, store fixtures, goodwill, and trade name. The purchase price is to be paid in cash except that the corporation has the option to pay a portion of the purchase price by the issuance of Common Stock of the corporation estimated at 35,000 shares.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York 5, N. Y.
March 19, 1946

To the Board of Directors of
UNITED CIGAR-WHELAN STORES CORPORATION:

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1945 and the related consolidated statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying financial statements, when read in conjunction with the explanation in Note A, present fairly the position of the corporation and its subsidiaries at December 31, 1945 and the results of their operations for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

The Whelan Creed

This Creed is on display in every Whelan Drug Store. All Whelan employees are required to conform to the provisions of the Creed.

1. Quality – All merchandise handled by Whelan Drug Stores must be of a quality that is acceptable to Whelan's Bureau of Standards. (Whelan's Bureau of Standards is a modern, well-equipped testing laboratory. It inspects and tests samples of all merchandise shipments received at Whelan's central Depot.)

2. Prices – Whelan's selling prices are intended to be the lowest possible prices that can result from Whelan's huge purchasing power and mass distribution methods. All prices in Whelan Stores are within the price ceilings established by OPA. Whelan sells a great deal of merchandise at less than ceiling prices.

3. Service – The Whelan organization is instructed to give to Whelan customers the kind of service that builds lasting customer-satisfaction – and is taught how to do so. It is instructed to be courteous and friendly in its dealings with customers. It is instructed always to describe merchandise honestly and never to make exaggerated claims or statements.

NO SUBSTITUTES – The Whelan Management will not tolerate any attempt at substitution. Our Policy is to give the customer what he asks for. Any deviation of this rule is a violation of the Company's Policy. The Whelan organization is instructed to give customers timely and helpful suggestions, but never to substitute any item for the one requested.

4. Guarantee – Whelan's guarantee is that the customer must always be satisfied, and that in the event of dissatisfaction for any reason whatsoever, the purchase price will be refunded cheerfully and without question or argument.

5. Professional Ethics – In its drug and prescription departments, Whelan employs only graduate pharmacists who have been licensed by the State Boards of Pharmacy. Whelan, therefore, maintains the highest possible code of professional ethics in the compounding of prescriptions and the selling of antitoxins, biologicals, etc.

6. Employees – Whelan Management attempts to provide for Whelan Employees standards of wages and working conditions that are at least the equal of the best in the drug store industry. It is only by maintaining such standards that Whelan is able to have an organization that is capable of serving its customers in the manner that Whelan Management insists upon.

We believe that drug stores, more, perhaps, than any other type of retail store, make an important contribution to community life in America. Drug stores, among the other services that they offer the public, are of great assistance to the medical profession in maintaining proper public health requirements. We are proud of the fact that we are in the drug store business. We are proud of the fact that we are among the leaders in our industry. It is our ambition to serve the public in such a manner that we shall be deserving of its confidence, and, therefore, of its patronage This is *the essence* of THE WHELAN CREED.

Home Office

215 Fourth Avenue — New York 3, N. Y.

★

Warehouses

Bush Terminal
Brooklyn, N. Y.

701 Bryant Street
San Francisco, Calif.